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# **Change Management**

## **Guiding Organizations through Transition**

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**A concept paper from**  
***The LearningSource***  
**at the OSD Comptroller iCenter**

# Change Management

## Guiding Organizations through Transition

*The degree to which leaders are able to manage change, develop consensus, and sustain commitment will determine the success (or failure) of any financial management initiative or reform effort.*

“Stewardship of resources” is a phrase often heard in the public sector. More often than not it is associated with budget decisions . . . the careful, prudent management of money . . . rather than of human assets and potential. And yet, guiding, nurturing, and shepherding human capital are the skills most needed to ensure that organizational change is received and implemented enthusiastically (or at least serenely), rather than with distrust and fear. The degree to which leaders are able to manage change, develop consensus, and sustain commitment will determine the success (or failure) of any management initiative or reform effort.

### What Does “Change” Mean?

There are two types of change that challenge and impact organizations:

**1. Internal**—Structured shifts or programs that are an ongoing phenomenon within an organization. These changes may be undertaken to avoid deterioration of current performance or to improve future per-

formance of a process or system. In this sense they are controlled and managed from within the organization in an orderly, planned, and systematic way.

**2. External**—Environmental changes that come from outside the organization, and the organization exercises little or no control over them. In business, this could mean shifting economic tides, new competitors, or radical technology developments. In government, it can mean changes in the world situation, the administration, legislation, budgetary issues, or management reform.

### How a Change Agent Tackles Organizational Challenges

Change management at the federal level involves aligning an agency’s culture with new ways of doing business. An agency’s organizational culture can be a difficult thing to get a handle on, however. Defined as “the underlying assumptions, beliefs,

values, attitudes, and expectations shared by the members of an organization,” organizational culture is comprised of the current human and political dynamics, as well as the agency’s history. This history not only reflects how the agency came to be, what it has accomplished, and how it has evolved over time, but it is concerned with more recent historical precedents and permutations. For example, agencies that have struggled with various financial management initiatives in the past may be resistant to new approaches. Getting people to see past their own fears, real or perceived, is a challenge of particular relevance to financial managers in the federal government. It requires a unique kind of leader—sometimes called a change manager or change “agent.”

### The Change Agent

A change agent is a person who has the *clout*, the *conviction*, and the *charisma* to make things happen and keep people actively engaged in the change process. A change agent deals with adaptation and assimilation issues, working conscientiously and consistently to melt down resistance. As change is being implemented, he or she must continue to find ways to solidify consensus and manage the ramifications and effects of change within the organization.

Change agents must juggle a number of skills: they must understand, but not participate in, an organization’s politics. They must be able to “deconstruct” an organization or process and put it back together in original, innovative ways. They must be keen analyzers who can clearly and persuasively defend their analyses to the organization. They must speak many organizational languages—marketing, finance, systems, etc., and they must understand the financial impacts of change, whether brought on by a more radical overhaul or incremental continuous improvements. In essence, they must bring *order out of chaos*. They do this by putting together solid teams comprised of high-energy, qualified, and eager employees. A strong sense of mission, good communication skills, and a flair for the offbeat and unorthodox round out the change agent’s character.

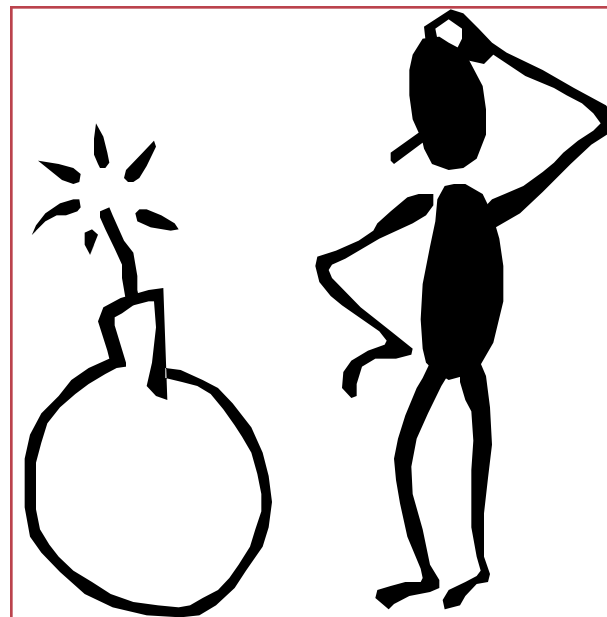
### A Systems Approach

Many change agents embrace a *systems view* of how an organization should function. Such a view looks at the organization as healthy only when it is in a state of dynamic balance; in other words, the organi-

zation is fluid and flexible yet maintains internal equilibrium. Every kind of system—whether social, biological, mechanical, or financial—has inputs, processes, outputs, and outcomes. The various components in the system interact and provide feedback to one another, and if one part is removed or modified, the nature of the entire system will be affected and also change.

From a financial management perspective, this means that instead of examining a single, isolated facet of how an organization conducts its business, and then shifting to another single, isolated facet, the manager looks at *relationships* among the various parts and focuses on patterns of interactions. This is very different from “closed” systems which are incapable of altering their own structures. Closed systems are discrete and disconnected, and they are managed by looking at final events rather than causal relationships and patterns.

An open, dynamic system sees the forest *and* the trees. It takes a holistic perspective, permitting a view of the entire structure (not the sum of its individual parts), to better understand how each piece interacts with and impacts the others. To be viable, a system must be goal directed (strategic), governed by feedback (measure performance), and adaptable (open to new knowledge). This requires a commitment to knowledge management principles and a flexible approach to new ideas and perspectives as patterns shift, change, and evolve.



## Taking it from the Top . . . Leadership

Showing organizations how to see themselves as collaborative systems requires leadership—conscious, authoritative oversight that can create a sense of organizational cohesiveness and shared vision.

One of the most significant factors that impede success in organizations is lack of leadership. Sustained, focused, demonstrable leadership is imperative for successful implementation of financial management reforms to occur. And it is better if it comes from an agency's CFO or department head rather than from someone whose authority is limited. It has been shown in both private and public sectors that when reengineering or benchmarking projects are not *mandated by individuals at the executive level*, the effectiveness of such projects is always compromised.

### Communicating the Message

Leaders who look to facilitate organizational change use a variety of means to communicate their organization's values and beliefs. They may often and openly discuss such values and beliefs in meetings, internal publications, magazine articles, videotapes, media coverage, etc. Training is also a effective way organizational beliefs can be absorbed and assimilated. Other ways to communicate organizational values and beliefs include:

1. Displaying top management support for values and beliefs.
2. Writing a "mission" or "vision" statement that captures the essence of an organization's character, purpose, and aspirations, and using illustrative slogans, stories, and legends to symbolize and convey that essence.
3. Rewarding employees who live up to the organizational mission with incentives, awards, promotions, etc.
4. Communicating the organizational mission during the hiring process and actively seeking to hire people who are in sync with the organization's core beliefs.

5. Using a management style that is compatible with those core beliefs.

6. Setting up systems, procedures, and processes that are compatible with beliefs and values.

7. Replacing or changing the responsibilities of employees who do not support the desired values and beliefs.

8. Assigning a manager or group whose primary responsibility is to change or perpetuate the culture.

GAO has taken a close look at organizations that have been leading the way in successfully implementing management reform initiatives. They've discovered a number of qualities these *organizational leaders* share in common:

- **Successful Leaders** grant decision-making authority in exchange for accountability for results. It was found that leading organizations really study their processes—learning how they contribute or hamper mission accomplishment. In looking for ways to improve, they give managers extensive authority to make improvements to mission-related processes and systems.

- **Successful Leaders** use a range of tools to encourage a results orientation. Employee incentive and accountability mechanisms are aligned with the goals of the organization.

- **Successful Leaders** take steps to build the necessary expertise and skills. They view training as an investment in human capital rather than an unnecessary expense. Consistent with quality management principles, this organizational learning must be continuous so that skills are kept up-to-date and changing customer needs are always being met.

- **Successful Leaders** integrate the implementation of separate organizational improvement efforts, no matter where they spring from. Some financial reforms may be self-initiated; some may be mandated by Congress; while others may be administrative initiatives, such as the National Performance Review. Top leadership knows how to meld these various reforms into a coherent, unified effort, so that rather than becoming frustrating exercises in futility, they are modifications that can

easily be adapted to the performance-based management culture that is already in place.

## Things that Can Get in the Way

**Cultural resistance.** Cultural resistance to change and parochialism can play a critical role in hindering financial management reform efforts. Many current operating practices have a long, entrenched bureaucratic history, and they have developed piecemeal over time in order to accommodate the needs of different organizations. The more deeply rooted these systems and attitudes are, the more difficult comprehensive change will be. Such change is unlikely to be immediate. That's why strong leadership is needed in order to sustain long-term commitment to performance-based management and other financial management reforms.

**Unclear goals and performance measures.** Many agency managers lack clear, hierarchically-linked roadmaps that offer straightforward illustrations of how their work contributes to attaining strategic goals. This situation can be complicated by poorly integrated accounting and information systems.

**Lack of incentives for change.** For many agencies, performance is measured by the amount of money spent, people employed, or tasks completed. Increased attention should be given to rewarding behaviors that meet strategic, results-based goals.

## How to Get Beyond Them

GAO has made a number of recommendations for improving federal performance that are especially relevant to DoD business processes:

- **Clear goals and performance measures should drive daily operations.** A central principle of performance-focused management is a clear understanding of what is to be accomplished and how progress will be gauged. This means recognizing the importance of using results-oriented goals and quantifiable measures to address program performance.

- **Building the organization's human capital is key to achieving results.** Organizational success is possible only with the right employees who have the

right training, tools, structures, incentives, and accountability to work effectively.

- **Programs and processes must be linked to results and customer satisfaction.** This means that successful organizations will need to have a clear understanding of their mission and be able to articulate how day-to-day operations contribute to mission-related results. Results-oriented performance should also draw upon commercial best practices, such as outsourcing and shared-services concepts. There should be a common goal in the agency to not only produce financial statements that withstand the test of an audit, but to also routinely generate useful, reliable, and timely financial information for day-to-day operations.

- **Decisions should be based on sound data.** Decision-making processes must be based on sound, reliable, and timely data. Arriving at this data requires integrated systems, but also financial management tools such as activity-based costing that clarify the true cost of operations.

- **Integrated business process reform strategy.** Business and financial management processes must not be addressed in isolation or in a piecemeal fashion. Reengineering should be viewed more holistically, as it connects to other management problems. It must be addressed in an integrated, enterprise-wide approach.

- **Active leadership.** Strong, sustained leadership is essential to changing deeply rooted corporate cultures and successfully implementing business and financial management reform.

- **Clear lines of responsibility and accountability.** Successful implementation is dependent upon clear lines of decision-making authority and resource control.

- **Incentives and consequences.** Incentives should be offered that motivate decision-makers to initiate and implement efforts that are consistent with better program outcomes. An emphasis at the Congressional level on results-oriented management can also have an impact on resource allocation decisions.

- **Enterprise architecture.** An enterprise-wide financial management architecture is essential for DoD to effectively manage the large, complex

system modernization effort now underway. The Clinger-Cohen Act requires agencies to develop and maintain an integrated system architecture.

• **Monitoring and oversight.** The periodic reporting of status information to OMB, Congress, and the audit community is essential to ensuring effective implementation of financial management and business process reform.

As DoD embarks upon a new era in financial management, the way in which change is both managed and embraced will play a critical role in the ease and effectiveness of transition.

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**See:**

—*DoD Financial Management Integrated Approach, Accountability, Incentives are Keys to Effective Reform.* GAO 01-68IT. May 8, 2001.

—*Management Reform: Using the Results Act and Quality Management to Improve Federal Performance.* GAO/T-GGD-99-151. July 29, 1999.

—*Organizational Culture: Techniques Companies Use to Perpetuate or Change Beliefs and Values.* GAO/NSIAD-92-105. February 1992.

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